

STANISLAUS COUNTY ASSESSMENT PRACTICES SURVEY

NOVEMBER 2005

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NO. 2005/061

November 8, 2005

TO COUNTY ASSESSORS:

STANISLAUS COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Stanislaus County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Douglas Harms, Stanislaus County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Stanislaus County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from July through August 2004. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Harms and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Stanislaus County Assessor's Office.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Stanislaus County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Douglas Harms, Stanislaus County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team-based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Stanislaus County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with officials in other public agencies in Stanislaus County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.²

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

¹ Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In our 2001 Stanislaus County Assessment Practices Survey, we made 23 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 15 of the recommended changes, did not implement seven, and one no longer applies. The seven recommendations that were not implemented are repeated in this report.

In the area of administration, we noted several positive aspects:

- Assessed values from 1999-2000 have increased by about 42 percent to 2004-05 and assessment units have increased from approximately 157,000 to 176,000, a 12 percent gain, during the same period.
- In spite of increased workloads and the loss of two permanent staff positions, the assessor has managed to timely produce an assessment roll by increased reliance on technology and by retention of experienced staff. Over 50 percent of the appraisal staff have achieved advanced appraiser certification.
- Administrative elements of the assessor's office, including appraiser certification, the low value exemption program, the exemption program, assessment roll changes, and assessment appeals, conform to statutory requirements. In addition, the racehorse return processing program meets statutory requirements.

However, we noted the following areas that need improvement:

- The assessor continues to erroneously prorate all disaster relief assessments from the exact date of the event to the exact date of restoration.
- The assessor posts the incorrect version of BOE-prescribed forms on his website, and certain assessment forms contain incorrect information.

In the area of real property assessment, the assessor has programs for changes in ownership, enrollment of new construction, supplemental assessments, California Land Conservation Act (CLCA) properties, leasehold improvements, water company property, mining properties, and pipeline rights of way that are effective and consistent with the requirements of property tax law. Improvement is needed to address the following real property assessment issues:

- The assessor does not annually review all decline-in-value properties.
- The assessor does not review all government-owned properties to discover taxable government-owned properties.

- The assessor does not review all leases at the fairgrounds for taxable possessory interests, and still fails to enroll low-value possessory interests. Additionally, he does not reappraise possessory interests pursuant to Rule 21.

The assessor has effective programs for the audit of business personal property; the discovery of leased equipment; and the discovery and valuation of aircraft, vessels, and animals. The assessor's manufactured home discovery and valuation program is also effective. The following personal property and fixture assessment issues exist:

- The assessor continues to accept incomplete business property statements.
- The assessor does not use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), as intended.

We found no significant assessment problems as defined in Rule 371. Since Stanislaus County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Stanislaus County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Here is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Prorate the disaster relief assessments according to section 170(e).....	12
RECOMMENDATION 2:	Improve the assessment forms program by: (1) ensuring that the correct revisions of BOE-prescribed forms are posted on the website; and (2) correcting erroneous information on locally developed assessment forms.	17
RECOMMENDATION 3:	Annually review all decline-in-value properties pursuant to section 51(e).....	24
RECOMMENDATION 4:	Review all government-owned properties to discover taxable government-owned properties.	27
RECOMMENDATION 5:	Improve the possessory interest program by: (1) assessing all taxable possessory interests at the county fairgrounds; (2) enrolling all low-value possessory interests; and (3) assessing taxable possessory interests pursuant to Rule 21.....	28
RECOMMENDATION 6:	Accept only properly completed business property statements..	35
RECOMMENDATION 7:	Revise the business equipment valuation procedures by: (1) using the percent good factors in AH 581 unless there is contrary supporting evidence and (2) correctly using Table 5 in AH 581 for mobile construction equipment.	37

RESULTS OF 2001 SURVEY

Disaster Relief

We recommended the assessor: (1) require property owners to file a disaster relief application before granting disaster relief; (2) prorate the assessment when processing disaster relief claims; and (3) calculate the appropriate value reductions for each year when disaster relief applications span two tax years. The assessor has implemented recommendations (1) and (3); however, we found that the assessor continues to erroneously prorate the assessment. Therefore, this recommendation is repeated.

Assessment Roll Changes

We recommended the assessor: (1) cite the proper code section when processing roll corrections; (2) use the proper caption when enrolling escape assessments; (3) cite section 531.4 to ensure that section 506 interest is added to escape assessments; and (4) enroll all escape assessments. The assessor has fully implemented all recommendations relating to assessment roll changes.

Change in Ownership

We recommended the assessor include the transferors' names on the section 408.1 transfer list. The new Megabyte computer system has corrected this problem; transferors' names are now included on the section 408.1 transfer list.

Possessory Interests

We recommended the assessor: (1) obtain copies of all possessory interest (PI) leases and contracts; (2) determine whether additional possessory interests exist at the fairgrounds; (3) enroll all low-value taxable possessory interests; and (4) recognize possessory interest changes in ownership.

The assessor now obtains PI leases and contracts for the major PI assessments and revalues all PI changes in ownership. However, the assessor still fails to review all leases at the fairgrounds for taxable PI's and to enroll low-value PI's. Therefore, these two recommendations are repeated.

Taxable Government-Owned Property

We recommended the assessor review all taxable government-owned properties for proper valuation. We found properties identified in the last survey that may have escaped assessment are now assessed and all identified taxable government-owned properties are valued correctly. However, during our review, we found additional properties that appear to qualify for section 11 assessment. Because this appears to be an ongoing problem, this recommendation is repeated.

Business Property Statement Processing

We recommended the assessor: (1) screen all signatures on business property statements; and (2) reject incomplete business property statements. We found that the assessor now rejects all property statements that are not executed in accordance with the requirements of Rule 172. However, we again found several accounts where the first part of the business property statement was not completed. Therefore, we repeat this recommendation.

Business Equipment Valuation

We recommended the assessor: (1) discontinue averaging factors for different categories of equipment; (2) discontinue the use of arbitrary minimum valuation factors; (3) use the AH 581 percent good table for construction mobile equipment; and (4) assess computers using the BOE-recommended factors.

We found that the assessor has implemented the fourth recommendation, and now uses the valuation factors in AH 581 to value computers. Since the BOE now uses average index factors in AH 581, the first recommendation is no longer applicable. However, the assessor failed to implement the second and third recommendations and these are repeated.

Manufactured Homes

We recommended the assessor: (1) classify all manufactured homes as personal property; and (2) enroll the full cash value of a manufactured home upon a change in ownership. The assessor has fully implemented our recommendations by changing his manufactured home valuation procedures and now ensures that the full cash value of a manufactured home is enrolled upon a change in ownership. In addition, the assessor's new Megabyte computer system allows him to enroll manufactured homes as personal property.

Aircraft

We recommended the assessor revise procedures for engine hour adjustments when appraising general aircraft. The assessor now makes engine hour adjustments when valuing general aircraft.

Vessels

We recommended the assessor update the market study of vessels annually. The assessor now conducts periodic studies to update the vessel values.

OVERVIEW OF STANISLAUS COUNTY

Stanislaus County is located in the San Joaquin Valley and is part of California's fertile Central Valley that stretches about 300 miles through the center of the state. Modesto, the county seat, is located 80 miles south of Sacramento. Stanislaus County is bordered by Calaveras and San Joaquin Counties on the north, Tuolumne County on the east, Merced County on the south, and Santa Clara County on the west.

Stanislaus County was established in 1854, just five years after gold was discovered at Sutter's Mill near Sacramento. Stanislaus County, with a population of about 500,000, encompasses nearly 1,500 square miles, and includes nine cities and several unincorporated communities.

The following table displays information pertinent to the 2004-05 assessment roll:

	PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
Secured Roll	Residential	119,882	\$17,680,729,035
	Commercial/Industrial	8,355	\$6,862,560,630
	Agricultural	16,900	\$3,818,218,028
	Manufactured Homes	5,492	\$140,989,375
	Other Secured		
	Total Secured	150,629	\$28,502,497,068
Unsecured Roll	Personal Property and Fixtures	25,175	\$1,433,562,439
	Total Assessment Roll	175,804	\$29,936,059,507

The next table illustrates the growth in assessed values during the past four years:³

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2004-05	\$29,936,059,507	9.9%	N/A
2003-04	\$27,244,268,679	9.3%	4.9%
2002-03	\$24,916,566,874	8.8%	2.8%
2001-02	\$22,896,128,702	7.9%	1.3%
2000-01	\$21,221,697,226		0.7%

³ Total roll value excluding exemptions or penalties.

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, the State-County Property Tax Administration Program (PTAP), appraiser certification, assessment appeals, disaster relief, assessment roll changes, exemptions, racehorse tax, and assessment forms.

Budget and Staffing

As shown in the following table, the assessor's office has benefited from increased budget levels over the last five years. PTAP funds are separate from the assessor's official budget:

BUDGET YEAR	GROSS BUDGET	INCREASE	PERMANENT STAFF	PTAP FUNDS RECEIVED	PTAP STAFF
2004-05*	\$4,300,000	2.50%	53	\$866,155	9
2003-04	\$4,195,000	9.53%	53	\$866,155	9
2002-03	\$3,830,000	1.51%	53	\$866,155	12
2001-02	\$3,773,000	9.11%	55	\$866,155	12
2000-01	\$3,458,000		N/A	\$866,155	N/A

*Proposed Budget

Presently, the number of employees totals 62 positions: 53 are funded through the general fund and 9 are funded through PTAP.

The assessor's office is divided into two divisions: valuation and administration. An assistant assessor is in charge of each division. The respective divisions are, in turn, divided into sections. Each section, with the exception of the cadastral mapping section, is supervised by an appraiser or auditor-appraiser possessing advanced appraiser certification. The valuation division is comprised of sections for valuing residential, farm, commercial, and business properties. The administrative division is comprised of sections for cadastral mapping, exemptions, title transfer, standards, and two other sections that support the business property and real property sections, respectively.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration.⁴ This program expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through

⁴ Chapter 914, Statutes of 1995, in effect October 16, 1995. The Property Tax Administration Loan Program expired June 30, 2001.

2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elected to participate, the county and the State Department of Finance entered into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. The contract provides that the county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

For most counties, the contract provides that verification of performance is provided to the State Department of Finance by the county auditor-controller.

In Resolution No. 2004-47, Stanislaus County authorized the Chair of the Board of Supervisors to execute the agreement between the county and the State Department of Finance pertaining to the State-County Property Tax Administration Program in the amount of \$866,155 for fiscal year 2003-04.

The assessor uses PTAP funds to enhance the property tax administration system by reducing backlogs in transfers, new construction, supplemental assessments, mandatory audits, assessment appeals, and decline-in-value assessments. Funds have been used specifically for staffing, new information technology hardware and software, and related staff training. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units that are part of the property tax assessment system.

For 2004-05, the assessor's required base funding and staffing levels were \$3,190,787 and 53 positions, respectively. The Stanislaus County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for the PTAP agreement.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are a total of 37 certified appraisers on staff, of whom 20 hold advanced appraiser's certificates and 17 have appraiser's certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted Rules 301 through 326 to regulate the assessment appeal process.

The elected county board of supervisors acts as the local board of equalization for property tax appeals. The board of equalization hears applications for reductions in value affecting individual properties on the unsecured and secured roll. Taxpayers requesting a hearing before the board must file an application with the board clerk between July 2 and November 30 for the assessment year in question. Stanislaus County has not passed a resolution for accepting appealed assessments made outside the regular assessment period. The clerk for the board of supervisors schedules board of equalization board meetings.

Applications received by the clerk for the board of equalization are reviewed, validated, and entered into the system with a copy forwarded to the assessor. The assessor's staff reviews each copy of the appeal application and then routes it to the respective supervising appraiser of each section. The section supervisor reviews the copy of the appeal, and depending on the type and location of the property, assigns the appeal to an appraiser. After the appraiser reviews the appraisal, he/she discusses the merits of the appeal with the section supervisor. The appraiser then contacts the taxpayer by telephone and explains why the assessor agrees or disagrees with the taxpayer's claim.

Should the taxpayer decide to either withdraw the appeal or stipulate to a value, the assessor sends a letter with the appropriate attachments to the taxpayer for their review. Upon receipt of a signed letter from the taxpayer and board action, the appeal is officially withdrawn or, in the case of a stipulated value, the assessment is changed.

If no agreement can be reached, the appeal process continues and a hearing is scheduled. The appraiser responsible for preparing the appeal, the supervising appraiser, and the assistant assessor for the valuation division represent the assessor's office at most appeal board hearings.

The following table illustrates the number of appeals filed, withdrawn, stipulated to, and board decisions for the last five years:

ASSESSMENT ROLL	2003-04	2002-03	2001-02	2000-01	1999-00
Appeals Filed	140	299	194	162	166
Open	155	99	60	34	84
Total Appeals Workload	299	398	254	196	250
Resolution:					
Withdrawn	155	109	85	43	77
Stipulation	46	60	49	75	87
Appeals Reduced	2	4	2	1	4
Appeals Upheld	0	22	5	0	6
Appeals Increased	0	0	0	0	0
Other Determination*	7	48	21	14	27
Total Resolved	214	243	162	133	211
To Be Carried Over**	85	155	99	60	34

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

No appeal in the last five years has gone unresolved for more than two years, unless the taxpayer agreed to a waiver of the statutory time limits.

We reviewed 10 appeals and found them to be clear and well documented. We attended a hearing and the staff handling appeals was experienced, well prepared, and worked well with the board of equalization. We found no problems with the assessor's assessment appeals program.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without his or her fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he or she may revalue the property on lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage of value reductions and reduce the assessed values accordingly.

The Stanislaus County Board of Supervisors adopted Ordinance No. C.S. 589 in April 1995 to provide disaster relief. The disaster relief ordinance was subsequently updated, effective January 13, 1998, by Ordinance No. 658.

The assessor discovers calamities through building permits issued for repairs, newspaper articles, taxpayer notification, fire department reports and field investigation. During the past five years, the assessor has granted disaster relief to about 40 to 50 parcels annually.

The assessor's computer system tracks all of the disaster relief applications. The administrative division reviews all returned claims for completeness.

In our prior survey we recommended the assessor: (1) require property owners to file a disaster relief application before granting disaster relief; (2) prorate the assessment; and (3) calculate the appropriate value reductions for each year when disaster relief applications span two tax years. The assessor has implemented recommendation (1) and (3); but has not implemented recommendation (2), which is repeated below.

RECOMMENDATION 1: Prorate the disaster relief assessments according to section 170(e).

We found that the assessor continues to improperly prorate disaster relief assessments. The assessor erroneously prorates all disaster relief from the first day of the month following the event to the first day of the month following restoration, providing less disaster relief to the taxpayer than authorized by statute. Section 170(e) specifies the disaster relief period; relief should begin as of the first day of the month of the disaster event and continue through the end of the month repairs are completed.

Assessment Roll Changes

The assessor must complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute. Additionally, if the correction will decrease the amount of unpaid taxes, the consent of the board of supervisors is required. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference. Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed, for any reason, on the original roll. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

In Stanislaus County, the roll change process starts when escaped property is discovered or when the current assessment requires correction and the process ends with the concurrence of the supervising appraiser. Clerical staff inputs the change after review at various levels.

The following table shows the number of roll changes processed over the last four roll years.

ROLL YEAR	ROLL CHANGES
2002-03	6,364
2001-02	3,439
2000-01	3,978
1999-00	4,842

In the prior survey, we recommended the assessor: (1) cite the proper code section when processing roll corrections; (2) use the proper caption when enrolling escape assessments; (3) cite section 531.4, to ensure that interest is added to escape assessments pursuant to section 506; and (4) enroll all escape assessments.

The assessor has undertaken procedural changes to comply with our prior recommendations (1) and (2); however, we would note that SB 1880, signed by the Governor with an effective date of January 1, 2005,⁵ removes the requirement that a notation of escape assessment be entered on the assessment roll.

Regarding the third recommendation, the assessor now cites the proper section to notify the auditor-controller to add interest pursuant to section 506 to the resulting tax bill. Regarding the final recommendation, the assessor now enrolls all escape assessments.

We found that roll corrections reviewed were made within the authorized period of time, and the *Notice of Proposed Escape Assessment* was mailed to taxpayers at least 10 days before changes were entered on the roll.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors has no authority to exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. The board of supervisors must adopt any such exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

⁵ Chapter 200, Statutes of 2004.

The Stanislaus County Board of Supervisors adopted Resolution No. 97-710, incorporating the provisions of section 155.20, commencing with the 1992-93 assessment roll. This resolution allows for the exemption of all personal property with full values of \$2,000 or less. On January 4, 1994, the board of supervisors extended that exemption to cover \$5,000 of manufactured home accessories.

We found that the assessor uniformly applies the \$2,000 limit to personal property and the \$5,000 limit to manufactured home accessories. We have no recommendation in this area.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f), of the California Constitution. This constitutional provision, implemented by section 206 of the Revenue and Taxation Code, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking also is exempt, under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1.

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

County assessors administer the church and religious exemptions. The church exemption and the church parking exemption require an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant. Once granted, this exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

In the Stanislaus County Assessor's Office, both individual exemptions (homeowners', veterans, and disabled veterans) and institutional exemptions (religious, church, and welfare) are processed by a supervising clerk and two account clerks. There were 45 church exemption claims and 393 religious exemption claims filed with the assessor's office for the 2004-05 assessment year. The following table shows the assessor's church exemption claims and religious exemption claims for the last five years:

ROLL YEAR	RELIGIOUS		CHURCH	
	Number	Value	Number	Value
2004-05	393	\$223,456,186	45	\$13,567,320
2003-04	383	\$225,278,448	49	\$12,935,412
2002-03	283	\$219,243,974	46	\$12,242,670
2001-02	258	\$201,481,720	42	\$13,476,453
2000-01	264	\$194,554,326	40	\$12,554,382

Our review of the assessor's religious exemption program showed that the assessor adheres closely to statutory filing requirements. If a claimant fails to return the annual termination notice for two years, the assessor requires the claimant to file a first-time claim to either allow the assessor to re-establish the religious exemption or adjust the exemption as necessary. We found the assessor's religious exemption program to be well documented and properly administered.

As required by sections 255 and 256, claimants for the church exemption are required to file an annual claim. The assessor uses the BOE-prescribed church exemption claim form (BOE-264-AH). When applicable, the exemption is limited for late filed claims to 85 or 90 percent (\$250 maximum). As with the religious exemption program, we found the assessor's church exemption program to well documented and properly administered.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid *Organizational Clearance Certificate* issued by the BOE. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's *Organizational Clearance Certificate* issued by the BOE.

The following table summarizes welfare exemptions granted on the local roll for the last five years:

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPT ASSESSED VALUE
2004-05	283	\$501,290,240
2003-04	383	\$468,404,208
2002-03	283	\$393,839,847
2001-02	258	\$375,332,354
2000-01	264	\$364,581,772

The assessor has a generally sound program for administering the welfare exemption. A separate folder maintained for every organization contains important documentation and correspondence. We found no problems with the assessor's exemption program.

Racehorse Administrative Tax

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

The assessor annually sends racehorse tax return forms to prior year owners. The assessor and tax collector exchange returns, providing effective control. Examinations of tax returns indicated no returns exceeded the threshold for mandatory audit.

The following table details the number of racehorses and racehorse owners over the last three years:

ROLL YEAR	RACEHORSES	OWNERS
2004-05	3	2
2003-04	11	4
2002-03	8	3

We found that the assessor effectively administers the annual racehorse in-lieu tax.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.⁶ For the 2004 lien date, the BOE prescribed 75 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the

⁶ Also sections 480(b), 480.2(b), 480.4, and rules 101 and 171.

assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

A review of the forms used by the Stanislaus County Assessor's Office for the year 2004-05 revealed the following:

- Of the 75 BOE-prescribed forms, the assessor used 55.
- Of those 55 forms used, the assessor rearranged all but two.
- The assessor has 25 BOE-prescribed forms available on his website, although some were incorrect.
- The checklists were received timely.
- The rearranged forms were received timely
- The final prints of the forms used were received timely.

We also reviewed 60 locally-developed forms, letters, questionnaires and notices. In general, the assessment forms program is adequately administered. However, the following recommendations would improve the program.

RECOMMENDATION 2: Improve the assessment forms program by: (1) ensuring that the correct revisions of BOE-prescribed forms are posted on the website; and (2) correcting erroneous information on locally developed assessment forms.

Ensure that the correct revisions of BOE-prescribed forms are posted on the website.

We found that of the 25 forms on the assessor's website, 13 forms are an incorrect version. In addition, 15 of the forms had the wrong year in the heading; all should have the year 2004. Incorrect versions of BOE-prescribed forms may result in providing taxpayers with outdated or obsolete information.

Correct information on locally developed assessment forms.

We found that the following assessor's forms had erroneous information.

- E-108, a form cover letter regarding one-time filing of the totally disabled veterans' exemption, includes outdated information. The assessor's form has a household income limitation of \$24,000; the amount should be \$44,302.
- Ru-001, *Open Space Income and Production Questionnaire*, states that the authority for the request is pursuant to section 441. The correct reference is section 441(d). Section 441(d) is much more specific as to the type of information that an assessor requires.

Using forms with erroneous information may be misleading to taxpayers.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as lands subject to California Land Conservation Act contracts, and taxable government-owned lands.

Unless there is a change in ownership or new construction, article XIII A of the California Constitution provides that the taxable value of real property shall not exceed its 1975 full cash value factored at no more than 2 percent per year for inflation.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for property tax purposes.

Section 110.1 requires the assessor to establish a base year value for real property upon a change in ownership, based on the property's fair market value on the date of change in ownership.

Document Processing

The assessor's primary means of discovering properties that have changed ownership is review of deeds and other documents recorded at the county recorder's office. Deeds and other recorded documents that transfer ownership are scanned daily by the recorder's office, noted with the assessor's parcel number and automatically transmitted to the assessor.

The number of documents received from the recorder has been averaging about 28,000 a year, during the past four years, but the number of reappraisable transfer documents is increasing.

The following table shows the total number of recorded documents and reappraisable transfer documents processed by the assessor's office for the most recent four years:

YEAR	RECORDED DOCUMENTS	REAPPRAISABLE TRANSFER DOCUMENTS
2003	33,681	14,146
2002	30,243	12,702
2001	26,085	10,955
2000	21,943	9,216

We reviewed several randomly selected transfers and found them to be well documented. We found that the assessor has an effective deed-processing program to aid his discovery of changes in ownership.

We also found that *Preliminary Change of Ownership Reports* (BOE-502-A) and *Change of Ownership Statements* (BOE-502-AH), are effectively tracked and penalties, if any, are applied as required by sections 482 and 483.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and hence either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide specific information about the real property involved—for example, the county of location, the assessor's parcel number, etc. Because of the limited data provided by many entities, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

The BOE has notified the assessor of 11 change of entity control occurring from January 1, 1999 to January 1, 2004. We reviewed six of these changes and found that the assessor has properly reviewed the changes and reappraised the properties when appropriate.

Section 408.1 Transfer Lists

Pursuant to section 408.1, the assessor is required to maintain, and make available for public inspection, a list of property transfers for the most recent two-year period. The type of information that should be included on the list is specifically outlined in section 408.1.

The assessor provides the public access to a computerized list of real property transfers that occurred in the preceding two-year period. Assessor's parcel number, recording date, document number, and selling price as indicated by the documentary transfer tax describes this list of transfers. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

We made a prior recommendation that the assessor include transferors' names on the section 408.1 transfer list. The new Megabyte computer system has corrected this problem and transferors' names are now included on the section 408.1 transfer list.

Parent/Child and Base-Year Value Transfer Exclusions

Section 63.1 excludes from change in ownership principal residences and the first one million dollars (\$1,000,000) of other real property transferred between parents and children. The exclusion also applies to transfers between grandparents and grandchildren if all of the parents of the grandchild or grandchildren are deceased as of the date of transfer.

Section 69.5 allows qualified homeowners who are 55 years of age or older or disabled to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county.

For 2002-03, the most current roll for which statistics were available; there were 1,890 section 63.1 and 93 section 69.5 claims for exemption from change in ownership filed.

We found that the assessor's staff is verifying eligibility and tracking and processing section 63.1 and section 69.5 claims effectively.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date; or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.5 clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 73 through 74.7 address these exclusions.

Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from 10 permit-issuing agencies: the Stanislaus County Building Department, and the cities of Modesto, Ceres, Turlock, Newman, Oakdale, Patterson, Riverbank, Waterford, and Hughson. Other discovery methods used include field inspection and review of newspaper articles and business property statements.

The assessor does not have a self-reporting program. Most of the permits are accompanied by a building plan and all permits received are forwarded to the property appraisers for review and valuation.

Permit Processing

Most of the permits are collected either weekly or bi-weekly by the assessor's office. The assessor receives building permit finals monthly.

Once the permits are received, the assessor's parcel number (APN) is verified and the items to be keyed are underlined in red. Permits that have no added value are coded and attached to the appraisal record. The appraiser determines the completion status of new construction from an on-site review and notice of completion from the building department.

There are nine data fields that are entered in the computer system by the appraisal support staff: APN, year, agency, permit number, issue date, document code, estimated cost, appraiser ID, and description. Once these data are entered, the system generates a worksheet. The permits and worksheets are then forwarded to the appraisal staff for valuation. After the review and valuation process is complete, the permits and the worksheets are returned to the appraisal support staff for data entry into the system.

The following table shows the permit workload of the assessor for the past five roll years:

ROLL YEAR	PERMITS RECEIVED	PERMITS GENERATING VALUE
2003-04	16,873	Not Available
2002-03	15,353	5,804
2001-02	14,892	5,561
2000-01	14,471	5,173
1999-00	12,387	4,565

The processing procedures are thorough and provide for effective retrieval of information upon which an appraiser can make informed decisions.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The appraiser determines the completion status of new construction from on-site review and notice of completion from the permit-issuing agencies. Several cost sources are used in valuing new construction, including the Assessors' Handbook Section 531, *Residential Building Costs*, local cost, the owner's actual cost, and the Marshall Valuation Service.

The following criteria form the basis for a field check:

- Construction of new residence.
- The multiple listing service (MLS) indicates a significant difference in size and drawing submitted that is not identifiable.
- The *Preliminary Change of Ownership Report* or MLS indicates poor condition.
- Fire damaged properties.

We reviewed several new construction appraisal records and found no problems with the assessor's program for assessing new construction.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value upon completion and a base year value is assigned. We found no problems in the valuation of construction in process.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its factored base year value on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its factored base year value, then the assessor must enroll the factored base year value.

Discovery of declines in value of residential, commercial, industrial, rural, and other properties in Stanislaus County are accomplished through a sales ratio/comparison analysis. The county is divided into geographical areas (neighborhoods). Prior and current sales are analyzed to determine areas that may have experienced declines in value.

Other discovery methods include appraiser-initiated reviews. Appraisers are expected to be familiar with value trends within their areas of responsibility. Appraiser knowledge and familiarity with an assigned geographic area enhances the value determination in decline-in-value property reviews. The standards section tracks taxpayer requests for review and assessment appeals. If a trend develops, the section reviews the area for value declines.

The decline-in-value assessments are adequately documented. Most contain either a comparable sales listing or an income approach indicator.

Each decline-in-value assessment is coded to prevent the computer program from applying the annual inflation factor to the prior year's taxable value and to ensure the record will be analyzed in the coming year. The local real estate market in Stanislaus County has become stronger and the number of properties with market value lower than their factored base year value has declined over the last four years.

The following table shows properties that are in decline-in-value status for the most recent five years:

ROLL YEAR	DECLINE IN VALUE ASSESSMENTS
2003-04	5,297
2002-03	19,488
2001-02	27,945
2000-01	33,630
1999-00	33,063

In reviewing a number of decline-in-value assessments, we found that the records were well documented and the values were well supported. However, we found the assessor only reviews commercial and industrial properties tri-annually.

RECOMMENDATION 3: Annually review all decline-in-value properties pursuant to section 51(e).

Section 51(e) provides that once the base year value of real property is lowered to reflect a decline-in-value, it must be annually reappraised until its market value once again exceeds the factored base year value. In Letter To Assessor 96/52, dated August 21, 1996, the BOE provided guidelines clarifying section 51(e).

By not reviewing all decline-in-value properties annually, the assessor may be under or over assessing these properties.

Supplemental Assessments

Sections 75 and following require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment

based upon the change in ownership or new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. The supplemental assessments are generated by computer and are electronically forwarded to the auditor-controller for issuance of the tax bills. The total supplemental assessment process, from reappraisal event date to supplemental billing, takes approximately two to three months.

Since our last survey, the Stanislaus County Board of Supervisors has adopted an enabling ordinance authorizing the assessor to cancel supplemental assessments that do not exceed twenty dollars (\$20.00) in tax revenue. The assessor's computer system calculates and processes all supplemental assessments and the county auditor makes the tax cancellation.

The following table shows the number of supplemental assessments processed by the assessor for the last two assessment years:

ROLL YEAR	SUPPLEMENTAL ASSESSMENTS	NET ADDED VALUE
2003-04	18,716	\$2,599,367,493
2002-03	18,344	\$2,063,372,305

It is the assessor's policy to issue supplemental assessment notices to all property owners. We found the assessor's supplemental assessment program to be current and reflect accurate value calculations.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve ("Williamson Act") contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lesser of restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2004-05 roll, Stanislaus County has a total of 692,820 acres under CLCA contract, with 13,158 acres in nonrenewal status. The total assessed value for land and living improvements was \$746,786,644 or 2.5 percent of the 2004-05 roll. The following table shows a four-year history of acreage under CLCA contract and land in non-renewal status:

ROLL YEAR	NUMBER OF PARCELS	CLCA ACRES	NONRENEWAL ACRES	TAXABLE LAND VALUES	TAXABLE GROWING IMPROVEMENT VALUE	TAXABLE VALUE TOTAL
2004-05	7,914	692,820	13,158	\$616,096,074	\$130,690,570	\$746,786,644
2003-04	6,668	690,997	10,789	\$621,249,855	\$93,563,431	\$714,813,286
2002-03	6,735	692,209	8,131	\$570,469,775	\$88,711,936	\$659,181,711
2001-02	6,668	687,369	2,591	\$549,124,649	\$89,606,105	\$638,730,754

Most of the rural land in Stanislaus County, approximately 397,240 acres, consists of grazing which makes-up approximately 57 percent of all CLCA properties.

In Stanislaus County, the total taxable value of property subject to a CLCA contract (land and improvements) averages less than \$1,080 per acre. Therefore, currently and for the past several years, market value has rarely been the lowest value indicator and has usually set the upper limit of value.

When valuing CLCA property, section 423(a)(1) requires the assessor to capitalize an annual income determined from market rents, imputed to the land being valued, based upon rent actually received and typical rentals received in the area for similar land in similar use.

The assessor mails the same CLCA questionnaire for trees/vines and for land, requesting information on cash and share rents, compatible use, production, etc. Questionnaires for trees/vines are sent every year, and for bare land, every other year. The assessor uses share rents to value CLCA properties with growing improvements, and cash rents to value land. The risk rates used range from one to three percent.

We found that the assessor is in compliance with all statutory provisions regarding the assessment of CLCA property.

Taxable Government-Owned Property

Article XIII, section 3, of the California Constitution exempts from property taxation any property owned by local governments, except as provided in article XIII, section 11. Section 11 provides that land, and improvements thereon, located outside a local government's or local government agency's boundaries are taxable at a restricted value if the property was taxable at

the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as taxable government-owned properties.

There are 196 taxable government-owned properties enrolled in Stanislaus County. The total assessment for the 2003-04 is over \$12.7 million. Valuation of a public entity transfer is handled the same as any other transferred property. Once the legal description and assessor's parcel number are determined, the documents are forwarded to the real property appraiser by neighborhood location for identification. The taxable government-owned properties are then forwarded to one real property appraiser for assessment. The assessor has a specialized computer program that annually updates the restricted value and the FBV for comparison with the market value, enrolling the lowest value.

In our 2001 survey, we recommended the assessor review all taxable government-owned properties for proper valuation. We found that properties identified in the last survey as possible escapes are now being assessed and that all identified taxable government-owned properties are now being valued correctly. However, during our review we found additional government-owned properties that appear to qualify for assessment. Since this appears to be an ongoing problem, we are repeating this recommendation.

RECOMMENDATION 4: Review all government-owned properties to discover taxable government-owned properties.

We compared tax-rate area codes with the tax-rate area index to verify whether or not government-owned properties were within their agencies' specified boundaries. We found several properties listed that were either located outside the owning government's boundaries or that were not listed on the tax-rate code index, making them potential taxable government-owned properties. Some properties may be escaping assessment.

The assessor should research the history of these parcels to determine if they are located outside the agencies' boundaries and were taxable when acquired. If the assessor confirms these facts, he must assess these properties pursuant to section 11(a) of article XIII of the California Constitution.

Taxable Possessory Interests

A taxable possessory interest (PI) results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable PI in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

Pursuant to section 107, the assessor is responsible for identifying the existence of PI's, and valuing those PI's upon their creation or change in ownership, and upon the construction of new improvements on the property.

The Stanislaus County Assessor's program for discovering PI's includes an annual polling of all government entities in the county requesting information on agreements with private parties. Staff appraisers annually contact 53 public agencies by letter or in person to request current information on new or changed tenancies or rents. There are currently 462 taxable PI's assessed in Stanislaus County with a total value exceeding \$86 million.

PI appraisals are assessed on the unsecured roll and are the responsibility of a supervising appraiser. The total enrollment of all PI properties represents approximately 0.3 percent of the local roll value for roll year 2004-05.

In our 2001 report, we recommended the assessor: (1) obtain copies of all PI leases and contracts; (2) recognize PI changes in ownership; (3) assess all taxable PI's at the county fairgrounds; and (4) enroll all low-value taxable PI's. The assessor now obtains PI leases and contracts of the major PI properties and revalues all known changes in ownership. However, the assessor still fails to review all leases at the fairgrounds for taxable PI's and to enroll low-value PI's. Therefore, we are repeating these two recommendations, as well as adding another recommendation.

RECOMMENDATION 5: Improve the possessory interest program by: (1) assessing all taxable possessory interests at the county fairgrounds; (2) enrolling all low-value possessory interests; and (3) assessing taxable possessory interests pursuant to Rule 21.

Assess all taxable possessory interests at the county fairgrounds.

In our previous two survey reports, we recommended the assessor review all private uses at the Stanislaus County Fairgrounds for possible PI assessment. To date, the assessor has not implemented this recommendation. We found the assessor has made only three PI assessments at the fairgrounds.

We obtained a list of 166 commercial and food vendors from the Stanislaus County Fair Association that are not being presently assessed. There appears to be a number of users with ongoing and beneficial use at the fairgrounds that warrant assessment as taxable PI's. Pursuant to section 107, these uses constitute taxable PI's and accordingly should be assessed. Failure to assess these taxable PI's results in lost tax revenue.

Enroll all low-value taxable possessory interests.

The assessor continues to exempt low-value tie-downs at the airport, which are taxable PI's. Stanislaus County does not have a low-value property exemption for real property. Therefore, low-value PI's should be assessed. Failure to assess these taxable PI's results in escape assessments and lost tax revenue.

Assess taxable possessory interests pursuant to Rule 21.

We found the assessor erroneously enrolls the factored base year value until the expiration of the contract term of possession or until there is a change in ownership, rather than reviewing the market value of the PI in light of the declining contract term.

Rule 21(d) provides that the contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee anticipate that a different term is appropriate. Rule 21(a)(6) also provides that the stated term of possession for a taxable possessory interest is the remaining period of possession.

Thus, the stated term of possession of a possessory interest declines on each lien date, which may have a material effect on the market value of the possessory interest. For this reason, the appraiser must estimate the market value of a possessory interest on the lien date, based on the remaining term of the contract, compare this value with the factored base year value, and enroll the lesser of the two.

Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily-prescribed capitalization of income method. Section 50280.1 stipulates that in order for a property to qualify as a historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income capitalization method. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized by a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and,
- A component for amortization of the improvements.

Stanislaus County has 13 historical properties on the assessment roll. The following table illustrates the most recent data available for historical properties and their roll value:

ROLL YEAR	HISTORICAL PROPERTIES	ROLL VALUE
2004-05	13	\$4,668,404
2003-04	13	\$4,310,902
2002-03	13	\$3,916,021
2001-02	13	\$3,648,570

The assessor annually compares the factored base value, the market value, and the restricted value for each property and enrolls the lowest of the three. Included in the appraisal record are rent comparables, sales comparables, and expense ratios used in the market and income approaches. The market and income approaches are well documented. Appraisal files contain copies of the contracts with the local governments, income data, worksheets, and appropriate ordinances establishing a historical preservation district and the historical preservation zone.

Historical properties in Stanislaus County appear to be assessed correctly.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the tenant or lessee (AH 504, November 2002 edition, p. 92). Such improvements can be secured to the real property or assessed to the lessee on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements that may result in a changed use of the property. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on the *Business Property Statement* (BPS), coordination between the real property and business property staff of the assessor's office is important. The reported cost should be examined by both an appraiser and an auditor-appraiser. The appraisers should determine the proper classification of the property to ensure appropriate assessment and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

In Stanislaus County, leasehold improvements are primarily discovered by a review of the BPS, building permits, and leases. Schedule B of the BPS is specifically for reporting real property installed by the tenant. Such taxpayers are annually required to list additions or deletions of real property.

The business property section receives and reviews the BPS. If there are any new costs reported under schedule B of the BPS for structural improvements, an auditor-appraiser will contact the

taxpayer to determine whether or not the improvement is new construction, remodel, or replacement; the date of completion; and whether the lessor or the lessee owns the improvements. This information helps the auditor-appraiser determine whether the improvements are assessable or if any value is to be added.

The business and commercial property sections use a locally-developed reference card to transmit information on leasehold improvements between themselves. Either section can initiate the use of the reference card. The business property section uses the reference card to inform the commercial property section about costs reported on the BPS, the value being assessed on the unsecured roll, and any indeterminate costs. For those costs, the commercial property staff determines whether or not any costs are to be assessed on the secured roll and then returns the card to the business property section. The assessor has an effective program in place for identifying and assessing leasehold improvements and for exchanging information between the business and commercial property sections.

Water Company Property

Taxable water company property may include the property of private water companies, mutual water companies, and some property of government-owned water systems. Each type of water company property presents different assessment issues.

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to land, improvements, and the delivery system owned by the water company because the values of these properties are reflected in the assessments of the member or stockholder parcels.

We reviewed five active, privately owned, mutual water company parcels and found them to be properly assessed. The assessor's valuation methodology complies with existing property tax law.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties, and are specific to mineral properties only.

Stanislaus County has several sand and gravel operations. One appraiser values all mineral properties typically using the royalty method. There are no recommendations regarding these properties.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority.⁷ The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

The assessor has four pipeline right-of-way assessments on the 2004-05 roll, with a total assessed value of \$2,156,597. There are no multiple pipeline rights-of-way in the county. The assessor maintains a separate base year value for each separate right-of-way interest. Pursuant to section 401.8(a), he assesses each taxpayer's intercounty pipeline rights-of-way to a single countywide parcel.

We found that rights-of-way within Stanislaus County are correctly valued pursuant to sections 401.8 through 401.12.

⁷ *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.
- Assessment of manufactured homes.

In this section of the survey report, we review the assessor's audit, business property statement processing, business property valuation, and leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

The following table shows the total number of audits completed over the last three years by the Stanislaus County Assessor:

DESCRIPTION	2003	2002	2001
Audit Workload			
Mandatory	197	169	176
Non-mandatory	83	219	224
Total Audits Scheduled	280	388	400
Unfinished from prior year	5	5	5
Total Audit Workload	285	393	405
Audits Completed			
Mandatory	197	169	176
Non-mandatory	83	219	224
Total Audits Completed	280	388	400
Audits Carried Forward	5	5	5

The business property section is composed of five full-time auditor-appraisers, two senior auditor-appraisers, and one supervising auditor-appraiser.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

There are approximately 700 accounts in Stanislaus County that are subject to the mandatory audit requirement. Each year, the assessor generates a computer listing of accounts attaining values of \$400,000 or more for four consecutive years that forms the basis of the mandatory audit list. To remain current, the assessor must audit approximately 175 accounts each year and the assessor meets this requirement.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

There were 83 non-mandatory audits completed for fiscal year 2003. Over 526 such audits have been performed over the past three years. We found these audits to be in order and well documented.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

The assessor is diligent in requesting waivers of the statute of limitations from taxpayers when he anticipates an audit may not be completed in a timely manner.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies

equipment, among other things. In all cases, both mandatory and non-mandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. We commend the assessor for his excellent audit program.

Business Property Statement Program

Section 441 requires each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more to annually file a property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the property statement address a variety of property types, including commercial, industrial, and agricultural property, vessels, and certificated aircraft.

The staff recently processed statements for roll year 2004-05 as shown in the table below:

CATEGORY	TOTAL COUNT	SECURED DOLLARS	UNSECURED DOLLARS	TOTAL DOLLARS
General Business	15,811	\$1,239,581,030	\$1,078,846,360	\$2,318,427,390
Agricultural	2,586	\$132,698,770	\$77,640,300	\$210,339,070
Apartments	227	\$44,731,620	\$516,980	\$45,248,600
Direct Billing	901	\$1,799,480	\$6,954,890	\$8,754,370
Financial	214	\$2,185,290	\$11,382,880	\$13,568,170
Leased Equipment	119	-0-	\$32,524,980	\$32,524,980
Service Stations	200	\$16,790,890	\$14,689,790	\$31,480,680
Total	20,058	\$1,437,787,080	\$1,222,556,180	\$2,660,343,260

In our review of several business property accounts, we found that the assessor applies valuation factors and service lives correctly and consistently. In our 2001 survey, we recommended that the assessor: (1) screen signatures on BPS's to ensure compliance with Rule 172; and (2) reject incomplete BPS's. We found that the assessor now properly screens BPS's in compliance with Rule 172. However, we again found several statements accepted by the assessor where the first part of the business property statement was not completed. Therefore, we repeat our previous recommendation.

RECOMMENDATION 6: Accept only properly completed business property statements.

We found that business property statements for several accounts were not properly completed. One section of the BPS contains questions that alert the assessor to possible changes in ownership, new leasehold improvements, remodeling, or changes in location.

Pursuant to section 442, every person owning, claiming, possessing, controlling, or managing property shall furnish any required information or records to the assessor for examination at any

time.⁸ Furthermore, section 452 provides that the property statement shall not include any question not germane to the assessment function. The questions on the BPS are all germane and provide information that is important for the property identification and assessment of taxable property. Data submitted on the business property statement serves as the basis for the subsequent business property assessment.

Discovery

The assessor has an efficient discovery program. Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovering assessable business property include reviewing business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories, referrals from other counties, and BOE notifications. Our survey indicates that the assessor's office effectively employs various methods to discover taxable real and personal business property.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing qualified lower-value business accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues it for several years. Property statement filing or field reviews are required periodically. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings. The direct billing program is beneficial to the taxpayer and the assessor. It results in a reduction of paperwork for taxpayers and fewer business property statements that must be processed annually by the assessor's staff, increasing time available for the auditor-appraisers to perform other required duties.

The Stanislaus County Assessor utilizes such a program and has over 900 accounts under direct billing. The accounts that are direct-billed are generally stable, have one location and less than \$75,000 in full cash value of reportable business property. Every four years, the assessor's office sends a business property statement to direct billed taxpayers to determine if there have been any substantial changes of business property including increases or decreases in equipment, sale of the business, or a change in location. The assessor then decides whether the account is still suitable for direct billing. If not, he resumes yearly business property statement mailings.

The direct billing program is well-administered in Stanislaus County.

⁸ **Construction.**-The language "any required information or records" is a broad grant of power to the assessor to demand information and does not support any distinction between raw and interpretive data, particularly in the context of the assessment and appraisal of oil and gas interests whose values are constantly changing, *Roberts v. Gulf Oil Corp.*, 147 Cal.App.3d 770.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over its service life. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment.

Valuation factors are the product of price index factors and the percent good factors. The proper choice and application of valuation factors to historical cost produces an estimate of market value.

In our 2001 survey report, we recommended that the assessor: (1) use AH 581, as intended; (2) discontinue limiting valuation factors to an arbitrary minimum level; (3) use AH 581 percent good table for mobile construction equipment; and (4) use the BOE recommended factors to value computers.

We found that the assessor has implemented the fourth recommendation by using the valuation factors in AH 581 to value computers. Since the first recommendation was based on the assessor averaging the index factors in AH 581 and since the BOE is now using average index factors in AH 581, this recommendation is no longer appropriate.

However, the assessor has not implemented recommendations (2) and (3), and they are repeated below.

RECOMMENDATION 7: Revise the business equipment valuation procedures by:
(1) using the percent good factors in AH 581 unless there is contrary supporting evidence and (2) correctly using Table 5 in AH 581 for mobile construction equipment.

Use the percent good factors in AH 581 unless there is contrary supporting evidence.

The assessor continues to use minimum percent good factors in the valuation of older machinery and equipment without market data to support the practice. Beginning with the 2003 lien date, section 401.6 prohibits assessors from employing minimum percent good factors that are determined in an unsupported manner. The assessor uses the CAA tables that recommend using factors for an age equal to 125 percent of estimated service life as the minimum percent good

factor. The assessor has no supporting evidence for using such minimum factors as required by section 401.16.

Additionally, the assessor's use of untrended valuation factors for specific types of property, including pager, facsimile equipment, and photocopiers, as recommended by the CAA, is not supported by a study. Therefore, the assessor should discontinue the use of unsupported minimum percent good factors and untrended valuation factors.

Correctly use Table 5 in AH 581 for construction mobile equipment.

Although the assessor now uses Table 5 in AH 581 when valuing construction mobile equipment, he does not average the new or used percent good factors contained in Table 5 when the taxpayer fails to indicate on the property statement whether the equipment is first acquired new or used. In such instances, he uses only the factors for new equipment. This practice is contrary to the provision of section 401.16(a).

Section 401.16(a)(2) allows the assessor to average the new and used percent good factors when the taxpayer fails to indicate on the property statement whether the equipment is first acquired new or used. The statute does not authorize the assessor to use the new percent good factors when the taxpayer does not indicate the condition of the equipment in the property statement.

If the assessor has insufficient information on hand to determine "new" or "used" condition of equipment, he should average the new and used percent good factors. Where the condition is known, the assessor should use the corresponding "new" or "used" table.

Leased Equipment

The business property section is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

When property is leased, both lessors and lessees should report such property on their annual property statements. At the end of such a lease, the lessee may acquire the equipment or return it to the lessor. Procedures should be in place to identify the disposition of leased equipment upon termination of a lease.

When a lessee obtains ownership and retains possession of equipment at the end of the lease, the assessor should confirm that the lessee reports the property. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

We investigated the procedures for assessing leased equipment along with a sample of lessors and lessees. We found the leased equipment program is well managed, with staff doing an excellent job in the discovery, processing, tracking, and cross-checking of leased equipment information.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

There are 5,492 manufactured homes in Stanislaus County in 121 mobilehome parks with a total roll value of \$141,283,326. Two appraisers are assigned to appraise manufactured homes in parks. Manufactured homes not located in a mobilehome park are assigned to the appraiser responsible for all residential property in that geographic location.

The assessor's office is notified of manufactured home sales by the Department of Housing and Community Development reports, building permits, and dealer reports of sale.

The assessor's manufactured home program is well-administered. Discovery procedures are good and new construction is assessed properly. In our 2001 survey, we recommended that the assessor: (1) enroll the full cash value of a manufactured home upon a change in ownership; and (2) classify all manufactured homes as personal property.

We found that the assessor changed his manufactured home valuation procedures and now considers all approaches to value to ensure that the full cash value of manufactured homes is enrolled upon a change in ownership. In addition, the assessor's new Megabyte computer system allows the assessor to enroll manufactured homes as personal property. The assessor's procedures for valuing manufactured homes are now correct and conform to statutory provisions.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The following table details the general aircraft assessments for Stanislaus County:

ROLL YEAR	NUMBER OF ASSESSMENTS	ENROLLED VALUE
2004-05	230	\$37,270,051
2003-04	230	\$69,101,073
2002-03	234	\$55,529,375
2001-02	259	\$136,000,141

An auditor-appraiser is responsible for valuing general aircraft.

Valuation

An aircraft property statement is mailed annually to the known owner of each aircraft in the county requesting information to be filed. The assessor uses the *Bluebook* and adjusts for airframe hours, avionics, hours before major overhaul, sales tax, and condition. Pursuant to LTA 97/03, the assessor also reduces listed retail values by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date.

The values of newer aircraft are most affected by the presence of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft. Field situs checks are made on a case by case basis according to taxpayer claims of deferred maintenance, airworthiness, or other issues.

Discovery

The assessor's discovery procedures are to obtain *Airport Tenant Reports* from the City of Oakdale Airport and the Modesto City County Airport. On the lien date, or shortly thereafter, the assessor's staff visits the county airports, record tail numbers, and then compares the tail numbers to the *Airport Tenant Reports*. Exceptions, if any, are investigated via the Federal Aviation Administration website. If ownership cannot be determined, then the assessor sends a property statement to the registered owner.

We found the assessor's aircraft discovery procedures to be correctly administered and the estimates of value to be properly calculated.

In our 2001 survey, the assessor made adjustments for condition, certain amount of engine hours, and extra equipment. However, no adjustments were made for engine hours between 25-75 percent of time before overhaul (TBO). The assessor now makes adjustments for all levels of engine hours. The assessor's procedures for valuing general aircraft are now correct and conform to statutory provisions.

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers (including air taxis that are operated in scheduled air taxi operation). Unlike general aircraft, which are normally assessed at a rate of 100 percent at the place where they are "habitually located" on the lien date, the assessments of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and the number of arrivals and departures during a representative period (the period is designated by the BOE). Certificated aircraft are assessed in accordance with the methods described in section 401.15.

Stanislaus County has one major commercial airline subject to local assessment. One auditor-appraiser is responsible for these assessments. The value of the commercial aircraft for the last four roll years is as follows:

ROLL YEAR	ENROLLED VALUE
2004-05	\$1,595,780
2003-04	\$1,458,472
2002-03	\$699,957
2001-02	\$2,595,174

As this is the only commercial airline in the county, the audit of this airline is contracted to another county that has several major commercial airlines. We found no problems with the certified aircraft assessment program.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

The following details historical aircraft exemption statistics for the last four roll years:

ROLL YEAR	NUMBER OF EXEMPTIONS GRANTED	EXEMPT VALUE
2004-05	46	\$3,285,320
2003-04	52	\$4,431,450
2002-03	38	\$3,925,888
2001-02	17	\$3,135,800

We reviewed several declarations of historical aircraft claimants and found no problems.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves.

When a vessel is purchased or moved into Stanislaus County, the assessor appraises the craft using recognized value guides such as ABOS or *National Automobile Dealers Association's Small and Large Boat Appraisal Guide* (NADA). The vessels are then categorized and an annual depreciation factor is applied to the computed value based on the vessel's category. The depreciation factors are developed from a detailed analysis of year to year value changes in the value guides for the various vessel categories.

All vessels on the assessment roll are less than \$100,000 value. The assessor discovers most assessable vessels from DMV reports, referrals from other counties, and information provided by the vessel owners themselves. Questionnaires are sent to new vessel owners and to vessel owners bringing their vessels into the county. If a questionnaire elicits no response, the vessel is valued and enrolled using the information available. The assessor does not use any BOE-prescribed forms to discover vessels and consequently does not apply any nonfiling or late filing penalties.

The following is the vessel assessment data from the prior five years:

ROLL YEAR	PLEASURE VESSELS	ASSESSED VALUE
2004-05	6,394	\$6,642,164
2003-04	5,722	\$6,069,069
2002-03	5,841	\$5,583,509
2001-02	5,676	\$5,173,433
2000-01	5,694	\$4,681,167

The assessor previously used dated market value studies to appraising vessels. Now, however, he conducts periodic studies to update the vessel values. We have no recommendations for this well-run program.

Animals

The California Constitution mandates that all property is taxable unless specifically exempted by the Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempted under section 224. Many animals that are considered business inventory are exempted by sections 129 and 219, and by Rule 133.

Stanislaus County has a number of assessable animals. Most animals are reported either on Form BOE-571-F, *Agricultural Property Statement*, or on Form BOE-571-F2, *Registered and Show Horse Statement*. It is the assessor's practice that all recipients of Form BOE-571-F also receive a Form BOE-571-F2.

Methods of discovering taxable animals include referrals from the real property sections, review of telephone yellow pages, the *Agricultural Property Statements*, and audits of agricultural property.

We reviewed the procedures for discovering and assessing taxable animals and found that the program is well administered.

APPENDICES

A. County Property Tax Division Survey Group

Stanislaus County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Property Auditor-Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Robert Donay

Associate Real Property Appraiser

Nick Winters

Associate Real Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.
- (d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

- (a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the

assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code**75.60. Allocation for administration.**

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6(commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment

operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Stanislaus County Assessor's response begins on the next page. The BOE has no comments on the response.



Douglas Harms
Stanislaus County Assessor

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Valuation

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September 27, 2005

Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Ms. Stuckey:

I appreciate the opportunity to respond to the recommendations to the recent State Board of *Equalization Assessment Practices Survey Report* for Stanislaus County. This response is made pursuant to Section 15645 of the California Government Code and I request that our response be included in your final version of the survey report.

I want to acknowledge the BOE survey team members for the professional and courteous manner in which they performed the survey. I welcome and appreciate their suggestions for improvement and constructive comments regarding our processes and practices.

I also want to thank the staff of the Stanislaus County Assessor's Office for their dedication, professionalism and commitment to serving the citizens of Stanislaus County.

Thank you for the opportunity to provide our comments. If you have any questions, please do not hesitate to call me directly at (209) 525-6516.

Respectfully,

/s/ Doug Harms

DOUG HARMS
Stanislaus County Assessor

STANISLAUS COUNTY
State Board of Equalization
Assessment Practices Survey Response

Recommendation 1: Prorate the disaster relief assessments according to section 170(e)

We agree and have made an alteration to our procedures to bring us into compliance with this recommendation.

Recommendation 2: Improve the assessment forms program by

(1) ensuring that all correct revisions of BOE-prescribed forms are posted on the website;

We concur with this recommendation and have the correct revisions of BOE-prescribed forms posted to our website.

(2) correcting erroneous information on locally developed assessment forms

We concur with this recommendation and have corrected any erroneous information found on our locally developed assessment forms.

Recommendation 3: Annually review all decline-in-value properties pursuant to section 51(e)

We agree with this recommendation and will implement as staffing permits.

Recommendation 4: Review all government -owned properties to discover taxable government-owned properties

We concur with this recommendation and have instituted a procedure to ensure the discovery of all taxable government-owned properties.

Recommendation 5: Improve the possessory interest program by:

(1) assessing all taxable possessory interests at the county fairgrounds

We agree and will continue to review these small assessments as staffing allows.

(2)enrolling all low-value possessory interests;

This recommendation refers to tie-downs at our local airports. that historically have a value lower than \$2,000 each. While we agree with this recommendation in theory, it is impractical to value these possessory interests in the light of our low value ordinance that would eliminate their assessment.

(3)assessing taxable possessory interests pursuant to rule 21

We concur with this recommendation and are currently assessing taxable possessory interests pursuant to rule 21.

Recommendation 6:

Accept only properly completed business property statements

We concur with reservations. This recommendation refers to Part 1 of the business property statement that contains questions that alert the assessor to possible changes in ownership and to the question on page 3, line 72, that asks if tenant allowances have been received.

We agree that it is important to identify possible changes in ownership of real property, change in location and the possible assessment of tenant allowances. However we estimate Part 1 of the property statement is incomplete in over 50% of the statements received and the question on page 3 is rarely answered. The impact of rejecting thousands of statements would put a heavy burden on our staff that far exceeds the benefits of discovery through this channel.

All but a few of the real property changes in ownership are discovered from deeds that we already process. Therefore, while we agree taxpayers should always complete the property statement, it would be an administrative burden to reject the massive number of statements this would necessitate

Recommendation 7:

Revise the business equipment valuation procedures by:

(1) using the percent good factors in AH 581 unless there is contrary supporting evidence

We concur. We have adjusted the minimum percent good factors that are supported by the CAA Recommendations in Section II of their Business Assessment Factors. The minimum percent good factor for 2005 is 9 percent for industrial property and 10 percent for commercial property. These percentages are based on the Marshall Valuation Services suggested

salvage value, and are being utilized by most California counties.

(2) correctly using Table 5 in AH 581 for mobile construction equipment

We concur. We will prepare future factors to recognize new vs. used construction mobile equipment, when the property statement indicates whether the equipment was purchase new or used.